

Message Text

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FM SECSTATE WASHDC

TO AMCONSUL FRANKFURT

UNCLAS STATE 138391

FOLLOWING REPEAT ABU DHABI 1758 ACTION SECSTATE USDOC WASHDC
TREASURY INFO CAIRO DHAHRAN DOHA JIDDA KUWAIT LONDON MANAMA
MUSCAT TEHRAN 13 JUN 77

QUOTE

UNCLAS ABU DHABI 1758

FROM THE AMBASSADOR

E.O. 11652: N/A

TAGS: ETRD, EFIN, ELAB, BEXP, TC

SUBJ: IMPACT OF US TAXATION ON AMERICAN BLUE COLLAR WORKERS IN A

REF: (A) 76 ABU DHABI 3277, (B) ABU DHABI 706, (C) ABU DHABI 1494

1. SUMMARY: A LARGE NUMBER OF WORKERS FROM US ARE LEAVING
JOBS IN NORTHERN EMIRATES BECAUSE OF COMBINED IMPACT OF
IRSSPOLICY THAT HOUSING, COST OF LIVING AND OTHER
FRINGE BENEFITS OF AMERICANS WORKING ABROAD ARE
TAXABLE INCOME AT INFLATED LOCAL COSTS AND RECENTLY
AMENDED TAX REFORM ACT WHICH REDUCED TAX CREDIT
AND INCREASES TAX LIABILITY IN 1977. BLUE COLLAR
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WORKERS ARE THOSE BEING PARTICULARLY HARD HIT. END SUMMARY

2. IN PREVIOUS REFTELS, EMBASSY SET FORTH IN DETAIL
ITS CONCERNS OVER IMPACT OF NEW TAX LEGISLATION ON
EMPLOYMENT OPPORTUNITIES FOR AMERICANS OVERSEAS AND
LOSS OF SALES OF GOODS AND SERVICES ABROAD CITING
SOME EXAMPLES. RECENT NEW DEVELOPMENTS IN UAE DRAMATIZE

MORE THAN EVER IMPACT OF US TAXES ON JOBS HELD BY
OVERSEAS AMERICANS, WITH BLUE COLLAR WORKERS SUFFERING
THE MOST.

3. RANKS OF AMERICAN WORKERS PARTICULARLY IN DUBAI AND
NORTHERN EMIRATES ARE BEING DECIMATED BY A COMBINATION
OF: (A) THE IRS POLICY THAT HOUSING, COST OF
LIVING, AND EDUCATION ALLOWANCES PLUS OTHER FRINGE
BENEFITS RECEIVED BY AMERICANS EMPLOYED ABROAD ARE
TAXABLE AS INCOME; (B) THE RECENTLY AMENDED TAX REFORM
ACT WHICH REDUCES CREDIT AND INCREASES TAX LIABILITY
FOR AMERICANS WORKING ABROAD AS OF JAN 1, 1977; AND
(C) THE UNWILLINGNESS OF US OR FOREIGN EMPLOYERS TO
OFFSET INCREASE TAX BITE FOR US CITIZEN EMPLOYEES
BECAUSE OF COST AND BECAUSE PYRAMIDAL "GROSSING" OF
OFFSET PAYMENTS WOULD BE TAXABLE AS FRINGE BENEFITS
IN SUCCEEDING YEARS. GROWTH IN ALLOWANCES TO OFFSET HIGH RATE OF
INFLATION IN UAE HAS ONLY MADE MATTERS WORSE.
THUS LARGE NUMBER OF SKILLED AMERICANS HAVE BEGUN TO
LEAVE SINCE THEY HAVE BECOME TOO EXPENSIVE TO THEIR EMPLOYER
AND CAN BE REPLACED BY EUROPEANS AT SOMEWHAT LOWER
SALARY, PARTICULARLY BY THOSE WHO HAVE HAD NORTH SEA
EXPERIENCE AND WHO ARE INCREASINGLY AVAILABLE AS NORTH
SEA OIL ACTIVITY DECLINES. FOR THOSE RETURNING AMERICAN
EMPLOYEES WHO HAVE SENIORITY IN THEIR COMPANIES, THEY
ARE DISPLACING OTHER, LESS SENIOR, EMPLOYEES IN US
WHO PRESUMABLY ARE BEING ADDED TO THE UNEMPLOYMENT
ROLLS.

4. THE MOST RECENT AND PROMINENT EXAMPLE IN UAE IS
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MCDERMOTT CORPORATION OF NEW ORLEANS. IN 1976, IT HAD
A TOTAL OF ABOUT 500 US CITIZEN EMPLOYEES IN NORTHERN
EMIRATES AND OFFSHORE RIGS IN GULF AND FOR YEARS HAS
BEEN LARGEST EMPLOYER OF AMERICANS IN UAE. ABOUT TWO-
THIRDS OF THIS FORCE WAS COMPOSED OF HIGHLY SKILLED
BLUE COLLAR TYPES: TUGBOAT CAPTAINS, WELDERS, PIPE
FITTERS, MEDICAL TECHNICIANS, STRUCTURAL STEEL
FITTERS, ETC., WITH BALANCE HOLDING MANAGERIAL AND
ADMINISTRATIVE POSITIONS. THESE SKILLED TECHNICIANS EARNED ANY-
WHERE BETWEEN 20 AND 35,000 DOLLARS A YEAR WORKING TWELVE HOUR DAYS,
SIX DAYS A WEEK WITH A SUBSTANTIAL NUMBER HAVING
THEIR FAMILIES WITH THEM. NEW TAX LEGISLATION HAS REQUIRED
MCDERMOTT MANAGEMENT TO DECIDE WHETHER OR NOT TO PARTICIPATE IN
A TAX EQUALIZATION PLAN FOR ITS BLUE COLLAR WORKERS.
IT HAS DECIDED THIS IS TOO COSTLY. CONSEQUENTLY,
COMPANY ANTICIPATES THAT ALL ITS AMERICAN BLUE COLLAR
WORKERS WILL BE REPATRIATED BY END OF 1977. OR ITS
AMERICAN ADMINISTRATIVE AND MANAGERIAL-LEVEL PERSONNEL,
MCDERMOTT HAS CONCLUDED TAX EQUALIZATION AGREEMENT

BUT NUMBERS BEING PARED DOWN SIGNIFICANTLY TO REDUCE COSTS. MEANWHILE, MCDERMOTT BUSILY HIRING EUROPEANS, AND IT EXPECTS THAT ITS US WORK FORCE WILL HAVE DROPPED FROM 500 TO LESS THAN 200 BY END OF THIS YEAR AND MAY GO AS LOW AS 100.

5. TO ILLUSTRATE IMPACT OF TAXATION ON BLUE COLLAR WORKER AND WHY AMERICAN MADE NON-COMPETITIVE, WE HAVE OBTAINED FOLLOWING COST FIGURES FROM MCDERMOTT USING EXAMPLE OF AMERICAN CHIEF METALURGICAL X-RAY TECHNICIAN WHO HAS JUST BEEN REPLACED BY A BRITISH TECHNICIAN. IT BASED ON FAMILY OF FOUR WITH TWO SCHOOL-AGE CHILDREN GOING TO DUBAI INTERNATIONAL SCHOOL LIVING IN SMALL THREE BEDROOM HOUSE WHOE RENT STILL SUBJECT TO LONG TERM LEASE. NO TAXES ARE LEVIED IN UAE ON INCOME

	AMERICAN		EUROPEAN
PERIOD	1976	1977	1977
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TAX REFORM

SALARY	25,000	25,000	17,500
COST DIFFERENTIAL AND REIMBURSEMENT:			
HOUSING			
DIFFERENTIAL (NOTE 1)	11,604	11,604	11,604
AIRLINE FARE FOR ANNUAL HOME LEAVE (DUBAI-NEW ORLEANS)	6,908	8,108	4,000
SCHOOLS FEES	7,500	9,500	9,500
COMMODITIES AND SERVICE (NOTE 2)	4,488	4,488	4,488
TOTAL OVERSEAS DIFFERENTIAL	30,500	33,700	29,592
TOTAL COST TO COMPANY	55,500	58,700	47,092
US TAX (NOTE 3)	7,763	15,476	-----
NET COMPENSATION AFTER TAXES	17,237	9,524	17,500

NOTE 1-HOUSING DIFFERENTIAL REPRESENTS DIFFERENCE BETWEEN COST IN US AND DUBAI OF HOUSING OF STANDARD TYPICAL FOR PERSON OF SIMILAR STATUS IN THE US.

NOTE 2-REFELCTS COST OF LIVING DIFFERENTIAL BETWEEN US AND DUBAI.

NOTE 3-ASSUMES STANDARD DEDUCTION OF \$2,800 PLUS \$3,000 PERSONAL EXEMPTION. SINCE MOST BLUE COLLARS STAY IN UAE LESS THAN THREE YEARS, 20,000 TAX CREDIT APPLIED TO GROSS INCOME FOR 1976 RATHER THAN 25,000. TAX FOR 1977 BASED ON GROSS INCOME, LESS STANDARD DEDCUTION, LESS TAX LEVIED ON FIRST 15,000 DOLLARS OF INCOME.

6. EVEN A CURSORY EXAMINATION OF ABOVE FIGURES SHOWS

REMARKABLE EFFECT OF PRESENT TAX STRUCTURE ON AMERICA
WORKER ABROAD. EVEN THOUGH THIS PARTICULAR AMERICAN'S
SALARY WAS \$7,500 MORE THAN THE EUROPEAN WHO REPLACED
HIM, HIS TAKE HOME PAY WOULD BE \$8,000 LESS. IN THESE
CIRCUMSTANCES, WITHOUT HELP FROM HIS AMERICAN EMPLOYER,
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HE SIMPLY COULD NOT AFFORD TO STAY.

7. STILL ANOTHER EXAMPLE OF THE ADVERSE IMPACT HAS
RECENTLY BEEN OFFERED BY CHAIRMAN OF OILFIELDS SUPPLY
CENTRE (OSC), A DUBAI BASED COMPANY, WHICH COORDINATES
AND CONTRACTS FOR SERVICES OF FIRMS WHICH MAINTAIN
AND SUPPLY OILFIELDS IN GULF. ALTHOUGH ALMOST ALL COM-
PANIES EMPLOYED BY OSC ARE AMERICAN, IT HAS STATED
NEGOTIATIONS WITH NUMBER OF RENCH AND GERMAN FIRMS
BECAUSE COSTS OF DOING BUSINESS WITH US COMPANIES IS
TOO HIGH. MOREOVER, OSC HAS FELT OBLIGED TO SEND
LETTERS TO AMERICAN FIRMS IT CURRENTLY ASSOCIATED WITH
TELLING THEM "TO REPLACE ALL AMERICANS PROVIDED TO US
WITH QUALIFIED PERSONS OF OTHER NATIONALITIES" BECAUSE
"IT IS VERY HARD TO JUSTIFY INCREASES IN YOUR MANAGE-
MENT CHARGES, WHICH ARE BEING REQUESTED PRIMARILY TO
REIMBURSE AMERICAN EMPLOYEES FOR US INCOME TAX LIA-
BILITY. IF WE AGREE TO THE PRINCIPLE OF THIS REIMBURSE-
MENT, WE ACCEPT WHAT IS IN EFFECT AN OPEN ENDED COST
WHICH IS NOT CONTROLLED BY OUR MANAGEMENT." LETTER
ALSO STATES THAT IF IT ASSUMED THAT REIMBURSEMENT FOR
ONE YEAR'S TAX WILL BE CONSIDERED AS TAXABLE INCOME
FOLLOWING YEAR, "IT BECOMES OBVIOUS THAT WE HAVE
REACHED POINT WHERE IT IS UNECONOMIC TO CONTINUE EM-
PLOYING AMERICANS."

8. COMMENT: WE HAVE LONG BEEN ON RECORD THAT IT SHOULD
NOT BE LEFT TO DISORGANIZED EFFORTS BY PRIVATE OVERSEAS
AMERICANS TO LOBBY WITH CONGRESS TO TRY AND CORRECT WHAT
HAS BECOME A FORM OF DISCRIMINATORY AND CONFISCATORY
TAXATION. WE HAVE BEEN DISTRESSED THAT OUR MESSAGES
HAVE MET WITH STONY SILENCE IN WASHINGTON. WE FEEL THAT
THIS IS AN IMPORTANT POLICY MATTER WHICH DESERVES MORE
THAN CASUAL ATTENTION BY USG AGENCIES BECAUSE IT AFFECTS
IMPORTANT US ECONOMIC INTERESTS AND IS WRONG MORALLY.
CONFISCATORY TAXATION OF EARNINGS OF OVERSEAS AMERICANS
APPEARS TO US TO BE INCONSISTENT WITH THE ELEMENTAL
HUMAN RIGHT TO WORK AND THE GOVERNMENT'S OBLIGATION TO
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PROTECT THAT RIGHT. WHILE LOSS OF 300 OR MORE BLUE COLLAR

JOBS FOR AMERICANS IN ONE FIR IN UAE MAY NOT SEEM OVERLY
IMPORTANT, THIS JOB LOSS IS INDICATIVE OF THE HARMFUL
AND SURELY UNINTENTIONAL EFFECT OF PRESENT TAX STRUCTURE.
WE WHOPE THIS LATEST MESSAGE WILL INCREASE WASHINGTON
AWARENESS OF HUMAN DIMENSION OF PROBLEM AND LEAD TO
CORRECTIVE ACTION, EVEN THOUGH IT WILL BE TOO LATE TO
DO ANY GOOD HERE.
DICKMAN.
UNQUOTE CHRISTOPHER.

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